THE SENATE OF CANADA

PROCEEDINGS OF

THE STANDING COMMITTEE

ON

BANKING AND COMMERCE

ON

BILL (C), AN ACT TO AMEND THE COMPANIES ACT

No. 1

The Hon. F. B. BLACK, Chairman

WITNESS:

Mr. Thomas Mulvey, K.C., Under Secretary of State, Ottawa

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1929

THE SENATE

STANDING COMMITTEE

ON

Banking and Commerce, 1929

THE HON. F. B. BLACK, *Chairman*

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ORDER OF REFERENCE

EXTRACT *from the Minutes of Proceedings of The Senate of Canada, 15th February, 1929*

Pursuant to the Order of the Day, the Bill (C), intituled: "An Act to amend the Companies Act," was read the second time, and—

Referred to the Standing Committee on Banking and Commerce.

79936—1½

MINUTES OF EVIDENCE

TUESDAY, 19th February, 1929.

The Standing Committee on Banking and Commerce to whom was referred the Bill (C) intituled "An Act to amend the Companies Act," met this day at 3.50 p.m.

In the absence of the Honourable Mr. Black, Chairman, the Honourable Mr. L'Espérance was elected Acting Chairman.

Honourable Mr. DANDURAND: We have a fairly important Bill to consider. Mr. Mulvey, Under-Secretary of State, is here to answer any inquiries that may be made in regard to the Bill. I would like now to ask Mr. Mulvey to give us a summary of the principal changes in the Bill without going into minute details at this stage.

Mr. THOMAS MULVEY, K.C.: Mr. Chairman and gentlemen, the comments which I have to make will not go into any details of the various sections, but state generally the necessity for them, the departmental practice which renders them necessary, and generally give a rough outline of the sections. I should like to make a preliminary remark referring to our amendments to the Companies Act. The criticism has been made that amendments come in from time to time, and that there should be a general overhauling of the Act so as to leave it definite. The Act as it stands has many crudities in it, and it would be to advantage if a general recasting were made; but that does not clear the difficulty, because business is changing, and has been changing more rapidly during the last twenty years than perhaps at any time in history, therefore it is necessary that the Companies Act should be an instrument to enable the advancement in business to be carried on in the way that corporations desire. It is for that reason that some amendments now suggested are inserted. The first section with which I will deal in section 3, which makes certain limitations upon the classes of companies which may be incorporated under Part I of the Act. This section was first introduced in the year 1869, and has stood as it is with the exception that in 1914, when the Trust Companies Act and Loan Companies Act were incorporated, these classes of companies were also withdrawn from this portion. The section as it stands is indefinite and ambiguous; for instance it says:

> for any of the purposes or objects to which the legislative authority of the Parliament of Canada extends, except the construction and working of railways or of telegraph or telephone lines.

Now it would have been quite clear if we added to that the words, "within the meaning of the Railway Act," because, as it is, we are frequently called upon to authorize companies to construct and operate, say, mining companies, lumber companies, and classes of that kind, and we have been incorporating, for years past, with the restriction that the companies must construct and operate on their own lands. That, however, did not raise any particular difficulty, because it has been the practice now for fifty years to incorporate companies in this way. I will not take them in the order in which they are here, but we are also restricted to the business of a loan company, and it is added, "within the meaning of the Loan Companies Act." That is necessitated by the change in modern business. Not many years ago the business of loan companies was the lending of money on real estate, and the Loan Companies

Act deals with companies of that class of loans. In recent years there is a new class of loan companies which has come into existence, that loan money on sale agreements and on various classes of securities. There are also a number of companies recently which are lending money practically on the character of the person who borrows. It is just a question whether we have authority to incorporate such a company under this part of the Act, and that ambiguity should be removed. There is also a limitation respecting the Insurance Act which it is not necessary to press; but the most important one of all is the limitation to the Act about the trust companies, and we have added the words " within the meaning of the Trust Companies Act." Now there is a new class of companies which have recently come into vogue, and it is advisable that there should be no doubt whatever about our authority under the Act to create them. I have reference to Investment Trusts. These concerns are not really trust companies at all, but there is an ambiguity in the section, and it might be contended in some place or at some time that there was no authority in the Act to incorporate them. This class of company and this business is comparatively new in Canada and also in the United States. It has been in existence for many years in the United Kingdom. I am prepared to describe the nature of their business, the extent of the business, and how it is carried on, if you gentlemen desire me to do so, and I think it would be advisable that I did, because when we come to consider the section which provides for the incorporation of those companies it may be advisable to know the exact class of business which they carry on. Shall I proceed with that?

Hon. Mr. WILLOUGHBY: They are operating now, of course?

Mr. MULVEY: A few, but very few.

Hon. Mr. WILLOUGHBY: Under the Companies Act?

Mr. MULVEY: Under the Companies Act.

Hon. Mr. BÉIQUE: There should be a special Act passed to govern those companies, because they are making a great deal of extension. They have just come into this country, but we will have hundreds of them before five or six years.

Mr. MULVEY: Down to the present time there are not more than ten or twelve of them. However, they are very extensive in the United States, but from communications we have had with the office of the Attorney General of the State of New York I believe that the regulations which we provide are far in advance of anything that is provided in the United States.

If the Committee desires it I should like to read from a report of Leland Rex Robinson, Ph.D., formerly of the Department of Commerce of the United States, who investigated this class of company very extensively in the United Kingdom and has made a report upon the subject. This is from his preface:

> Since the war, and especially during the last two years, there has arisen in the United States a keen interest in investment trusts. In the process of liquidating for pre-war indebtedness to European nations, and especially to Great Britain, America, since 1916, has visualized, as never before, the profound influence exerted upon the development of her industries and natural resources by those British investment trusts through which foreign capital was mobilized for productive employment in the new world. The terrific strain withstood by British natural markets during the war, and the later return of sterling to parity have inevitably directed public attention to these co-operative agencies of domestic, as well as foreign, investment which contributed so materially to London's financial leadership. In view of the recent vast expansion in the ranks of American investors, and the increasing complexity and variety of overseas and home investments offered at the present time, it is not strange

that investment trusts of one kind or another are being so rapidly organized in the United States, and that many of the recently created financing companies having extensive international interests are in more than one way adopting investment trust organization or method.

In the introduction which is prepared by Mr. Paul D. Cravath, a leading lawyer of New York, and counsel for Kuhn, Loeb & Company, and an honourary bencher of Lincoln's Inn, he says:

> The important part played by British investment trusts in making London the financial capital of the world is now generally recognized. The investment trust was admirably adapted to meet the needs of that large class of British investors, especially those of the leisure class, who, in chosing their investments, preferred to follow trained leaders rather than to depend upon their own judgment. In time the judgment of the great leaders in the investment trust field, like Robert Flemming, came to be regarded as almost infallible. There is no magic in the successful investment of capital. It calls for honesty, prudence and intelligence. Given those qualities in reasonable degree, an investment trust cannot fail, while the measure of its success will depend, partly on chance, but chiefly, on the wisdom and foresight of its managers. Before the war the investment trust idea made little progress in America. There were several reasons for this. In the first place, the American people had not developed the investing habit. New issues of securities were placed chiefly with insurance companies and other institutions, and with men of large wealth. As a rule investors of this class felt that they were in a position to form their own opinions regarding their investments. In the second place, the self-reliant American temperament did not lend itself to the development of a disposition among investors to follow financial leaders. The average investor preferred to form his own opinion regarding the enterprises in which he invested, which were usually domestic enterprises, comparatively few foreign investments having been offered in America.

Mr. MULVEY: The book then goes on:

> The development of modern corporate enterprise has so standardized the forms of investment as to permit the concentration of scattered savings for industrial and commercial ends on a scale undreamt of in former centuries. The evolution of the capitalist system, however, has so complicated the problems of investment that a great majority of people are bewildered by the variety of securities offered them, and unable to interpret intelligently the intricacies of the financial statement, the vagaries of the stock exchange, or the changing phases of the credit cycle.

Hon. Mr. DANDURAND: It is suggested that you give those references, and do not read them.

Hon. Mr. TESSIER: Those are the opinions of a writer?

Hon. Mr. DANDURAND: Yes, the comments.

Mr. MULVEY: I have also here a very interesting statement on the recent development of investment trusts, taken from The Economist of January 5, 1929.

Hon. Mr. DANDURAND: You will take care not to make those citations too long, because it will make the report very bulky, and diminish the chance of it being read thoroughly.

Mr. MULVEY: Quite so; I will co-operate with the reporter in respect to that.

The Economist, January 5, 1929.

BRITISH INVESTMENT TRUSTS

One of the most significant features of last year's activity in the new issue market was the number of invitations made to shareholders and the public to subscribe new capital for investment trust companies. Our records reveal that offers coming under this category reached the considerable total of £31,450,000, an amount equal to 8½ per cent of all the money publicly raised during the year, and twice the total of London borrowings of either foreign Governments or British corporations. Another significant fact has been the development of the investment trust company in the United States and Canada, in which English capital has to some extent participated. For example, the London Canadian Investment Corporation was formed last year under the auspices of leading Canadian financiers to provide a channel for British investment, under expert guidance, in Canadian enterprises. The following table shows the investment trust company issues on the London Stock Exchange since 1923:

INVESTMENT TRUST CAPITAL ISSUES

(£'000)

—	1923	1924	1925	1926	1927	1928
Ordinary	3,651	8,294	7,808	14,237	12,142	23,276
Preference	17	20	1,669	771	1,014	2,284
Debentures	962	.....	1,322	302	1,793	5,890
	4,630	8,314	10,799	15,310	14,949	31,450

Two good reasons may be adduced for the popularity of the investment trust in a period of general "liveliness" on the Stock Exchange. On the one hand the mixed experiences of large numbers of non-professional investors at such a time are the best possible advertisement of the advantages of a policy of pooling and spreading investment risks under skilled management; and, on the other hand, the element of public "trustfulness," which is so marked a feature of every boom, helps to obviate the reluctance of many people to give what is, in fact, a blank cheque to the directors of these companies for the investment of their resources.

A new investment trust company must, of course, stand or fall by its board of directors. Good management is everything, and the "connections" of the directors are the guarantee that the new company will get its share of first-class underwriting business. There is much to be said for, as it were, backing the horses out of the well-known "stables"—that is, investing in the companies only of the well-known "groups" in the investment trust company world. From time to time these "groups" will form new companies and give the investor the opportunity of acquiring stock at or near par. For example companies with the following managements are deservedly popular in the market—Robert Fleming, Hon. A. O. Crichton, A. H. Wynn, W. S. Poole; and, among the newer companies, those of E. de Stein, Thomson McLintock, and the "Lake View" group. Among the best known Scottish groups are Shepherd and Wedderburn, Martin Currie and Co., Grahams, Rintoul, Hay, Bell and Co., Wallace and Guthrie, and Moores, Carson and Watson, while the Alliance (Dundee), and British Assets, under Mr. Ivory's management, stand out as

among the most successful of individual companies. There are others about which the investor could be informed by any responsible firm of brokers. Companies coming from such "stables" can, at any rate, be said to possess good connections and management.

Security and earning capacity are very properly the first consideration of trust company directors. Profits made by the sale of appreciated shares are invariably used to strengthen the capital position. Hence depreciation in the market value of securities is only regarded with serious concern if it is held to be due to curtailed earning power rather than to a general depressed tone on the stock exchanges or to market manipulations. The wide distribution of a trust company's capital among different securities—in general practice not more than 1 per cent of the capital being invested in any one security—makes for the elimination of market risks. The strongest companies pride themselves on the spreading of their investments among different industries, types of security, and parts of the world. One peculiar feature of trust company investments is the cross-holding between trust and trust. In 1928 out of a nominal investment holding of 25 companies of all sizes, which totalled £43·8 millions, £2·8 millions, or 5·2 per cent, represented nominal holding of shares and stock of other investment trusts.

It is interesting to compare the respective capital and revenue positions of some of the trusts connected with the groups we have mentioned. The following figures are taken from 1928 reports:

CAPITAL POSITION

Company	Year formed	Group	Total Paid-up Capital and Debentures	Including Ordinary Stock	Reserves and Carry Forward	Gross Revenue less Income Tax
			£	£	£	£
American Invest. and General	1879	Crichton	3,000,000	750,000	479,532	172,843
Anglo-Celtic	1925	E. de Stein	1,500,000	400,000	33,032	78,309
British Assets	1898	Ivory	4,091,155	350,000	913,874	232,966
British Investment	1889	Fleming	4,500,000	900,000	1,607,587	340,890
Edinburgh Investment	1889	Wallace and Guthrie	1,390,000	540,000	247,364	101,503
Grange	1926	T. McLintock	500,000	250,000	14,203	33,260
Industrial and General	1889	Poole	6,000,000	1,750,000	1,470,747	498,409
Mercantile Invest. and General	1884	Wynn	6,000,000	1,500,000	686,319	408,565
Scottish United Investors	1924	Moores, Carson	2,000,000	400,000	22,489	117,531
Stockholders Investment	1925	Lake View	1,198,992	240,000	85,320	54,147

EARNING POSITION

Company	*Expenses	Per cent on Capital	Net Revenue Available for Ordinary Stock	Per cent Earned, Gross	Per cent Paid, Gross	Yield on Dividends	Yield on Earnings
						At latest Prices	
	£		£			£ s. d.	£ s. d.
American Invest. and General	8,866	·30	84,555	14·1	12	4 16 5	5 13 3
Anglo-Celtic	6,601	·44	33,537	8·4	6	3 18 2	5 9 10
British Assets	17,632	·43	86,239	30·8	20	2 5 11	3 10 0
British Investment	16,569	·37	193,708	26·9	21	4 7 10	5 12 6
Edinburg Investment	4,975	·36	67,528	15·2	12	4 1 1	5 1 8
Grange Trust	3,032	·61	12,534	6·3	5½	3 18 10	4 10 0
Industrial and General	42,787	·71	315,863	22·4	17	4 8 7	5 16 8
Mercantile Invest. and General	15,541	·26	234,024	19·5(	15	4 8 10	5 15 5
Scottish United Investors	9,103	·46	35,979	11·2	7	3 2 3	4 19 7
Stockholders Investment	5,165	·43	15,536	8·2	7	4 16 9	5 5 9

*Including rents, salaries, fees of directors, auditors and trustees, etc.

It must be realized that the "visible reserves" shown here are no measure of a trust company's financial strength. "Hidden reserves" created by writing down the cost of investments out of capital profits are often very considerable. For instance, British Assets reported that a valuation of the assets showed a large surplus over the capital, reserve funds and carry-forward, which had been increased in the last full year by £6,000,000. This trust has also made the distribution of capital bonuses a feature of its policy, a fact which goes to explain the relatively low yield on its stock. The tables set out the case for a purchase of investment trust securities, since with a continuance of progress dividends should eventually rise to the level of current earnings. The fact that the mere size of the company has no necessary connection with managing expenses is borne out by these figures, which show that the two largest companies had respectively the highest and lowest proportionate expenses.

It is instructive to compare the above companies with the so-called Co-operative Investment Trusts, which have been much criticised for paying high dividends too early in their career, a policy which precludes the building up of large reserves. In its last report, for instance, the largest of them, the First-Co-operative, noted a depreciation of its investments below book value of £34,210, which must be set against total reserves amounting to £65,214 on a paid-up capital of £1,408,720. It will be seen from the following table that the "co-operative" arrangement, whereby the remuneration of the directors is maintained at a fixed percentage of the distributed profits, does not on the whole reduce the cost of management. The six directors, who are the same for all three companies, received between them £14,254 in the course of the year, while £14,436 for other expenses raised the expense ratio to over 1.2 per cent of the average paid-up capital.

FIRST, SECOND AND THIRD CO-OPERATIVE INVESTMENT TRUSTS

——	Paid-up Capital.	Management Expenses	Directors' Remuneration	Total Expenses as Percentage of Capital	Dividends on Ordinary Shares % p.a.	Investment Reserves	Other Reserves and Carry Forward
	£	£	£				
First Co-operative—							
To Jan. 31, 1928	1,262,845	3,184	4,303	·59	7	35,000	34,608
To July 31, 1928	1,408,720	4,682	4,569	·67	7	35,000	40,214
Second Co-operative—							
To March 31, 1928	907,111	2,190	1,623	·42	7	.....	21,663
To Sept. 30, 1928	990,679	3,675	3,280	·80	7	.....	25,136
Third Co-operative—							
To April 30, 1928	84,125	397	152	·65	7	.....	2,865
To Oct. 31, 1928	106,925	308	327	·59	7	.....	4,400

We cannot do more than note in passing that the rapid initial success of these Co-operative Trusts stimulated the efforts of many imitators, and a number of new Trusts have been started on similar lines, and with a similar appeal to the small investor, who would be wise to realize that in the vital respect of the capabilities of the management the merits of these new concerns vary immensely.

Investment trusts are perhaps the most important achievements of insurance against strictly commercial and financial risks. Economic theorists have been wont to regard such risks as uninsurable, in contrast to the more fortuitous and personal risks of accident, fire, ship-wreck and the rest. But this proposition forgets two things: that risk as an economic magnitude has no meaning out of relation to the person bearing it, and that all practicable insurance takes the form either of division of a big risk or of the merging of a number of small risks. The chances of fire are no less because an insurance company bears the loss; the chance of depreciation in a block of shares is no

less because they are held by a trust company. But even if they result in a net loss, the fluctuations in a mass of shares cause much less misfortune if they are held in common by a large number of persons than if held by the same persons individually in separate blocks, and, of course, a good trust sees to it that such losses do not occur. Hence the managing expenses of the conservative investment trusts must be regarded as a very cheap kind of insurance premium against loss.

Mr. MULVEY: I have also a statement which I will place in the hands of every member of the Committee—a scheme under which these investment trusts are incorporated. They are limited; they are not allowed to invest in securities as they will. Here is one; it is in fact the first investment trust that was incorporated.

FOUNDERS INVESTMENT TRUST LIMITED

(Issued 4th February, 1927)

1. The Company shall within six (6) months after its resources aggregate One Million ($1,000,000) Dollars and thereafter, own at all times at least One Hundred (100) different marketable securities;

2. The Company shall, within six (6) months after its resources aggregate Two Million ($2,000,000) Dollars and thereafter, own at all times at least Two Hundred (200) different marketable securities;

3. The Company shall, within six (6) months after its resources aggregate Three Million, Five Hundred Thousand ($3,500,000) Dollars and thereafter, own at all times at least Three Hundred (300) different marketable securities;

4. The Company shall, within six (6) months after its resources aggregate Five Million ($5,000,000) Dollars and thereafter, own at all times at least Four Hundred (400) different marketable securities;

5. Not more than Fifty (50%) Per Cent. of the total resources of the Company shall be invested in securities originating in the United States of America;

6. Not more than Thirty-Five (35%) Per Cent. of the total resources of the Company may be invested in securities originating in any other country other than the Dominion of Canada and the United States of America;

7. Not more than Three (3%) Per Cent. of the total resources of the Company may be invested in any one security except Government, Provincial, State or Municipal obligations or securities of Investment Trust organizations.

8. Information concerning the history, assets and earning record for a period of at least three (3) years shall be obtained concerning each issuer before authorization of purchase; Except that the maximum of not more than Twenty (20%) Per Cent. of the resources of the Company may be invested in securities of more recently organized companies, corporations, associations or trusts;

9. Not more than Twenty-Five (25%) Per Cent. of the resources of the Company may be invested in securities of any one of the following classes:—

1. Banking Institutions,
2. Insurance Companies,
3. Investment Organizations,
4. Railroad Companies, and
5. Public Utility Companies.

10. Not more than Twelve and One-Half (12½%) Per Cent. of the resources of the Company may be invested in security of any other distinct class of business or industry;

11. At least Eighty (80%) Per Cent. of the investments of the Company in securities issued by Railroad, Public Utility and Industrial Companies shall at the time of purchase have the following book value as compared with purchase price:—

(*a*) Bonds One Hundred and Fifty (150%) Per Cent. or more,

(*b*) Preference Shares One Hundred and Twenty-Five (125%) Per Cent. or more,

(*c*) Common Shares One Hundred (100%) Per Cent. or more.

12. Securities owned when ascertained to be no longer eligible shall be sold within one year from such date;

13. The Company may underwrite issues of securities eligible for purchase to an amount not exceeding in any case twice the amount of such securities which could be purchased for investment, but in no case to an amount in excess of Six (6%) Per Cent. of the total resources of the Company. The total liabilities incurred in underwriting shall not at any time exceed Twenty (20%) Per Cent. of the resources of the Company.

14. Notwithstanding anything hereinbefore contained the Company may invest the whole or any part of its resources in any Investment Trust Organization having the same or more stringent restrictions upon its power to invest its resources as has this Company.

UPPER CANADA INVESTMENT TRUST LIMITED

(Issued 29th November, 1928)

And it is further ordained and declared that:

1. The funds of the company shall be invested so far as possible in such manner as to provide unusual distribution of risk combined with opportunity for appreciation of capital by means of broad diversification in seasonal and marketable securities to be selected by experts after careful and studied analysis of economic and business conditions;

2. All securities shall be fully paid for and purchased outright;

3. The resources of the company shall not be employed in any country which in the opinion of the directors has not stable government;

4. All purchases of Corporation securities shall be based on examination of surplus and undivided profits, earnings, past records, field of operation, potentialities and book value;

5. The company shall at all times keep fifty (50%) per cent of its entire resources invested in such investments as are authorized for the investment of the funds of a Life Insurance Company under the Insurance Act of Canada, 1917, as amended 1926;

6. The amount which may be invested in any one security with the exception of securities of or guaranteed by the British Government or any Dominion, Colonial or Provincial Government within the British Empire, or the United States Government shall be limited to ten (10%) per cent of the outstanding share, bond, and debenture capital of the company; provided that the funds of the company may from time to time be loaned on call or short term loans on bonds, debentures, stocks or other immediately saleable securities of a sufficient realizable value to cover, either when the company has surplus funds uninvested or when it is deemed inexpedient to invest such funds in long term securities;

7. Not more than fifty (50%) per cent of the resources of the company shall be invested in securities of any one general class of business or industry and not more than ten (10%) per cent in securities of any specific business or industry;

8. No investment in any class of stock of any issue shall exceed ten (10%) per cent of the total of such class;

9. Securities owned and ascertained to be no longer eligible under the provisions hereof, shall be sold within one (1) year from such date;

10. At least seventy-five (75%) per cent of the investments of the company in securities issued by railroads, public utilities and industrial companies shall at the time of purchase have the following book value as compared with the purchase price: (*a*) Bonds—150 per cent or more; (*b*) Preferred Shares—125 per cent or more;

11. The company may underwrite issues of securities eligible for purchase to an amount not exceeding in any case twice the amount of such securities which may be purchased for investment, but in no case to an amount exceeding ten (10%) per cent of its total, and the total liabilities incurred in underwriting commitments shall not at any one time exceed twenty-five (25%) per cent of the total resources of the company;

12. The company shall not purchase partly paid shares involving a call extending over a period of more than two (2) years after the date of purchase except in the case of shares of insurance companies, and shall only purchase partly paid shares of insurance companies that have been in business five (5) years or more, where the capital is unimpaired in accordance with the latest information from the Department of Insurance of Canada with respect to companies incorporated or operating under the supervision of the Insurance Department of Canada, or from the best obtainable information with respect to insurance companies incorporated elsewhere;

13. The company shall not purchase or hold a controlling or a managerial interest in any other company or lend its funds to any person owning or controlling a majority of the stock of such company;

14. Subject to the foregoing the company shall never act as guarantor or engage in any promotion or financing and its business shall be confined to the investment and re-investment of its funds.

ECONOMIC INVESTMENT TRUST LIMITED

(Issued 28th January,1927)

AND IT IS FURTHER ordained and declared that:—

1. The Company shall at all times keep fifty (50%) per cent of its entire resources invested in such investments as are authorized for the investment of the funds of a Life Insurance Company under the Insurance Act of Canada 1917, as amended 1924, and in bonds, stock or other obligations of Foreign Governments.

2. Not more than five (5%) per cent of the subscribed capital of the Company for the time being (including as well borrowed capital as share capital) shall be invested in or loaned upon any one security or investment (other than British and/or Dominion of Canada Government stocks and bonds) but securities or investments of different titles or denominations shall not be deemed to be one security or investment by reason only of their possessing or being entitled to a guarantee from or by the same State, Government, Municipality, Corporation or other body.

3. The Company shall not make any investments in, and/or loan upon the security of more than ten (10%) per cent of the total amount of the capital stock and/or bonds and/or obligations of any one Company, Corporation, and/or Government, and/or public authority, except stocks, bonds, and/or obligations of the Dominion of Canada and/or Great Britain, but securities or investments or different titles or denominations shall not be deemed to be one security or investment by reason only of their possessing or being entitled to a guarantee from or by the same State, Government, Municipality, Corporation or other body.

4. Not more than twenty-five (25%) per cent of the resources of the company may be invested in securities of any one of the following classes: (*a*) Banks, (*b*) Insurance Companies, (*c*) Investment Companies, (*d*) Public Utility Companies, and not more than twelve and a half (12½%) per cent of the resources of the Company may be invested in the securities of any other distinct class of business or industry.

5. Securities owned and ascertained to be no longer eligible under the provisions hereof, shall be sold within one year from the date of their becoming ineligible but the restrictions upon investments and lands by the Company herein contained shall not apply with regard to investments or lands which at the time of making the same were within the limits prescribed as aforesaid but by reason of amalgamation, consolidation, reduction of capital or otherwise shall have subsequently exceeded the said prescribed limits.

6. The Company may underwrite issues of securities eligible for purchase to an amount not exceeding in any case twice the amount of such securities which may be purchased for investment, but in no case to an amount exceeding ten (10%) per cent of its total resources, and the total liabilities incurred in underwriting commitments shall not at any time exceed twenty-five (25%) per cent of the total resources of the company.

Hon. Smeaton White: Would this last printed statement have any reference to this particular Bill?

Hon. Mr. Béique: The Bill deals with these companies.

Hon. Mr. Belcourt: My impression is that every gentleman around this table has a general idea of the difference between an investment company and a trust company, and it is not necessary that we should go into an elaborate study of each one respectively. What I think would be very desirable, speaking for myself, would be that Mr. Mulvey should tell us in what respect he proposes to amend the Companies Act so as to meet the different cases—his own idea, his own experience, not that of Mr. Cravath or anybody else.

Hon. Mr. Laird: We know what these investment trusts are. I would like Mr. Mulvey to deal with the restrictions that are introduced into the charters of the investment trusts.

Mr. Mulvey: There are no two companies that desire to be restricted in the same way, and it would be impossible to lay down general restrictions to which every company should conform; but there are main principles which must be observed, and one is that 50 per cent of the total capital of those companies should be invested in securities approved of under the Insurance Act.

Hon. Mr. Tessier: That is good; that is all right.

Mr. Mulvey: That is the main provision; there are other provisions. That is all I have to say about investment trusts.

There are a number of sections of the Act which merely make verbal alteration, to which I shall not refer. Sections 4 and 5 are of that class. Section 6, however, is somewhat more extensive. The modern method calls for incorporation of companies with shares having no par value. That was first intro-

duced in the legislation of 1917, which copied the New York legislation of 1912. Since that time there have been tremendous changes in the development of companies that are issuing shares of this class. Originally there was no provision that the preferred shares could be issued without par value. The purpose of this Act is merely to allow that. They may have them with or without par value so far as preferred shares are concerned, and of course the common shares are usually without par value. This is merely to allow of growing conditions which are practically demanded by the public.

Sections 7 and 8 are merely verbal alterations to make those sections of the Act workable. They provide that a company incorporated by a special Act of Parliament, or by letters patent under some form or Act which does not bring the company within this Act, may obtain letters patent under this Act. It has happened in many cases that where a company is incorporated by a private Bill it could not be brought under this Act because it perhaps was authorized to take money on deposit. This enables a company to abandon things that do not come within this section of the Act and thereby conform with the principles of this Act.

Section 9 is merely for the purpose of repealing three sections with which we have had a great deal of trouble. They purport to enable companies to be reincorporated by this Act. This is found, in practice, to be quite illusory, and in order to relieve the Department of showing in each case that this is so, it is advisable to have the sections eliminated.

Section 10 merely makes a verbal change. In considering a name that has been given to the company the Secretary of State may, if he finds the name conflicts with that of another company, or has any other ground of objection, make changes and gives a new name. In section 23 it provides for a change of name, but he appears to be restricted, and the only change of name is made when it conflicts with another. It frequently happens that trade marks and trade names should form a good reason why the Secretary of State should have authority to change the name on other grounds, in the same way as it was granted in the first place.

Mr. MULVEY: Section 11 is merely a verbal change; also section 12. This is a lengthy section, and it merely includes a number of objects which are practically provided for in every case, and this section obviates the necessity of copying it five times.

Section 14 is only a verbal change.

Section 15 is to cover departmental necessity. It very frequently happens that a prospectus is dated and mailed from British Columbia. It takes effect only from the date of filing, and this section enables the department to accept it if evidence is given that no shares have been offered to the public in the meantime.

Hon. Mr. DANDURAND: You passed rapidly from section 12. Will you explain the changes on page 7 of the Bill?

Mr. MULVEY: They are merely the addition of other clauses which we find applied for time after time, and by inserting them here we obviate the necessity of copying them five times in the department. They are in addition to those which have been in the Act since 1924.

Hon. Mr. BELCOURT: Powers which are applicable to all companies?

Mr. MULVEY: Yes, quite so.

Hon. Mr. BELCOURT: You are wanting to make them statutory powers?

Mr. MULVEY: Yes, quite so. Then section 16 is also inserted for the purpose of enabling companies to overcome difficulties created for them by mistakes or misapprehensions in preparing of prospectuses. Of course the prospectus is the basis on which the issue of shares takes place, and if there is something

wrong in the prospectus there is always a question whether the shares have been properly issued. If something has gone on and it is clearly an omission, and causes nobody any harm, this enables the company to go before the judge and have the prospectus rectified.

Hon. Mr. BELCOURT: Have you a provision there that requires registration of a prospectus in all companies, whether issued by the company or by the promotor?

Mr. MULVEY: That is a point I am coming to in a minute. The next section, 50-B, practically provides for that point you raised, Senator Belcourt. There has been a growing practice in companies, of alloting their shares to underwriters, and not filing a prospectus at all; the underwriters then selling the shares to the public as their own. The company then merely files a notice in lieu of prospectus, which may not give all the information which the investors should have. This subject has been under discussion in England for the past two or three years, being investigated by a Committee of experts, a departmental Committee to which was associated a number of leading lawyers and financiers.

Hon. Mr. BELCOURT: What section deals with that?

Mr. MULVEY: Section 50-B, page 9 of the Bill. This section provides that where a company allots its shares to an underwriter who offers them to the public, under certain circumstances the company must itself file a prospectus, nevertheless. Under ordinary circumstances it files only a notice in lieu of prospectus, and this section calls upon them to file a prospectus. The circumstances are several; the principal one which it is intended to meet is where this method of the company offering its shares to the public is adopted for the purpose of evading the provisions of the Act in regard to the prospectus. I may say that this section is not acceptable to a considerable section of the financial public, and it will be opposed. Already several have suggested that they desire to appear before you to object to this section. The ground upon which they object, so far as I can learn, is this, that the financial methods followed in England are quite different from the methods which are followed here, and that while this amendment may be suitable for the situation in England it would create difficulties here, and practically stop business in many respects. That is a matter which I have no doubt will be thoroughly explained to you by the gentlemen who take this position. So far as the department is concerned, the attitude is this: we have been pressed from time to time to approve or suggest what is called Blue-sky Law. I have studied that subject for some years past, and in my opinion Blue-sky Law is useless. It does not accomplish what it is intended to effect. It has been disastrous in many places. It is not based on good principles. I could give you very many reasons why, so far as I am personally concerned, I have always opposed it. The methods which have been adopted in the Province of Ontario, and I believe in the Province of Manitoba, are the methods which will give results, but notwithstanding this, pressure has been brought to bear on the department to approve of Blue-sky Law. Now, in that situation, when we find that legislation which is enacted for that purpose in England is following the line of legislation which we have had here for the past twelve years, I think that I should bring it before you for consideration, at any rate, and it will be for yourselves to say whether in the present circumstances it is proper legislation here.

Hon. Mr. DANDURAND: So you will have to justify this modification?

Mr. MULVEY: Well, I would rather put it the other way. My justification is this: the prospectus clauses here follow those which have developed in England since 1900—for the years 1900, 1902, 1908—and this is considered to

be an improvement on those methods. Now I say, if they think so—and we have followed their methods heretofore—that we would be justified in following the methods which they are adopting now. That is my justification.

Hon. Mr. DANDURAND: For the protection of the public?

Hon. Mr. TESSIER: For the protection of the investor; that is important.

Mr. MULVEY: Those who oppose that say that it is going to obstruct business, and that it is unnecessary. That is how they justify their opposition to it.

Hon. Mr. CASGRAIN: You say you want them to issue a new prospectus?

Mr. MULVEY: A prospectus; not a new one. Under the circumstances they do not issue a prospectus at all, because they sell all their shares.

Hon. Mr. CASGRAIN: How can they issue one prospectus when there has been one out before?

Mr. MULVEY: They issue a notice in lieu of a prospectus now, and the allotment to the underwriters is merely to avoid the prospectus; then they must provide one.

Hon. Mr. CASGRAIN: But only one?

Mr. MULVEY: Yes, to be sure.

Hon. Mr. BELCOURT: Do you leave the obligation to file a prospectus on both the company and the promoter, or is it the company alone?

Mr. MULVEY: At present I would rather not answer that question, because I not only want to study this a little more carefully, but I want to study the report of the English Committee on which this is based. When we get into detail I hope to be able to answer that question.

As to section 17, I have nothing to add to what I have already said respecting the prospectus clauses of the English Act. This merely adopts the changes that have been made there, which necessitate further information being given than was required before. I have no doubt the same objection will be raised to this section as to the former.

Section 18 is merely showing how the prospectus or statement is to be filed.

Section 19 is merely for departmental purposes.

Section 20 contains four clauses which are of importance. It has been a growing practice with companies to issue shares which confer no right to vote.

Hon. Mr. CASGRAIN: That is wrong.

Mr. MULVEY: Now, investors frequently take shares of this character without knowing where they stand, and this merely provides that if any class of shares has no right to vote at a meeting of shareholders, that shall be disclosed on the certificate.

Hon. Mr. CASGRAIN: Do you believe it is right that shareholders should not have any right to vote?

Mr. MULVEY: It is a matter of business.

Hon. Mr. CASGRAIN: Why? People who put their money in should have the right to vote.

Mr. MULVEY: If they put their money in, knowing that they have no right to vote, it is for them to say. I would not undertake to pass an opinion upon that; but as a matter of fact there are very many companies in which that is done.

Hon. Mr. DANDURAND: All you say is that when a shareholder has no right to vote he should know it.

Mr. MULVEY: That is it.

The Acting Chairman: Do you suggest that you give a special name to those shares?

Mr. Mulvey: They are usually preferred shares. There is another reason for this. Some years ago the usual method of financing was by the issue of common shares and debentures. In many cases that was very disastrous. Perhaps at the outset the company had difficulty in earning enough money to pay interest on their debentures, but that is an obligation which they had to meet. Instead of doing that, they issued preferred shares, on which dividends are not required to be paid until they are earned, and those shares are usually made redeemable. Those are the classes of shares which usually have no right to vote, because they replace the debentures, which were the former kind of issue. These next four sections are for the purpose of controlling the redemption of preferred shares. That is the usual, and what I might call the up-to-date, method of financing. The structure of the Act really provides that the capital situation should be always shown on the records of the Department. Those are the only proper public records that there are. The by-laws of the company are not public, under the system of organization of the companies. Now, where shares are being redeemed from time to time we must have on the files of the Department something to show to what extent they have been redeemed. Formerly we required them to apply for supplementary letters patent every time they were redeemed, but that was found in many places to be unreasonable, as it subjected the company to a great deal of expense and trouble. This clause as it stands now is merely for the purpose of making it more simple, so that when preferred shares are redeemed the companies shall simply file a statement with the Department showing the class of shares and the extent of the shares that have been redeemed.

Hon. Mr. Belcourt: I see you provide, in section 56-C that there shall be no redemption except out of profits.

Mr. Mulvey: I should say again that that section is copied verbatim from the English Act. I believe it should be amended when it comes before the Committee.

Hon. Mr. Belcourt: It is a pretty drastic provision.

Mr. Mulvey: It is clearly limited to the extent you say, except that I think there is provision that they may be redeemed from further issue. I believe that it should be put in this way, that they may be redeemed from profits if so required by the letters patent. They may be redeemed by the issue of debentures, because frequently a company at the outset is not aware whether it will make sufficient profit to pay its dividends, and it adopts the preferred shares as its principal issue. Later on, when it finds that it is making a profit, then it can issue debentures, and redeem its preferred shares, and the section should go to that extent.

Hon. Mr. Belcourt: The section definitely states that the shares are not to be redeemed except out of profits.

Hon. Mr. Dandurand: But there is a further clause.

Mr. Mulvey: Even if it is as you say, Senator Belcourt, my attention has been drawn to that difficulty since the drafting of the Bill, and I propose making an amendment as it goes through the Committee.

Hon. Mr. Belcourt: All right; I am satisfied.

Mr. Mulvey: Section 56-A appears to me to be a reasonable one. It is also copied in full from the English Act. It has been found very necessary there, and I believe it is here. Loan companies and many other concerns purchase other companies' assets, and this requires some regulation.

Section 21 is merely a verbal change.

Sections 22, 23 and 24 relate to mortgages, and those merely continue the improvements that were made in the English Act. The Bill introduces two additions—a mortgage on calls which have not been paid—top of page 18 of the Bill—and a mortgage or charge upon the good-will. The object here is to provide a method of registering mortgages where they are not required to be registered under provincial law. That is the main purpose, and this section has been working quite satisfactorily since the year 1917 when it was introduced.

In regard to section 26, two changes are necessary. The first one is merely to correct what I think was a mistake in the Act as it stands. If a person was named as a director in the prospectus and he had not taken shares, or had not consented to act as a director, he was forever prohibited from being a director. That appears to be unreasonable, and this change is merely for the purpose of curing that situation.

Hon. Mr. DANDURAND: As to executors of estates?

Mr. MULVEY: It is the first change that is more important. I was referring to the second one.

Hon. Mr. BELCOURT: What section is that?

Mr. MULVEY: Section 26. It has always been provided by this Act that only a shareholder in his own right may be elected a director. When the Act was originally passed that may have been a very good provision, because our finances at that time were very limited; but at the present time it creates a good deal of inconvenience. As I stated in the notes here, suppose a person who controls a company dies and his estate is being administered by a trust company. The shares are transferred to a trust company. They are not owners in their own right; they cannot be a director or an elected director. There may be some companies that desire to continue the old method, requiring every director to be a shareholder in his own right. This merely provides that they may choose to continue having directors shareholders in their own right, or that they may not do so. It is not necessary to be an actual shareholder to be a director. As a matter of fact, in a great many concerns, particularly in the United States, the directors may not be shareholders at all; they may be employed as any other employees, to look after the management of the company.

Section 27 provides for an Executive Committee. Modern methods make this almost imperative in large concerns that require a board of directors to represent various interests but it is often difficult to get directors together sufficiently often to carry on the minor affairs of the company. This merely provides that an executive committee may be appointed to supervise continuously the business of the company.

Hon. Mr. BELCOURT: Is not there a provision now under the Companies Act?

Mr. MULVEY: No.

Hon. Mr. BELCOURT: Do you mean that an executive committee cannot be appointed?

Mr. MULVEY: No, not under the Companies Act as it is to-day.

The DEPUTY CHAIRMAN: It has been done.

Mr. MULVEY: I know that it has been done, but there is no legislative authority for it.

Hon. Mr. BEIQUE: The committee reports its proceedings to the board, and they are ratified.

Hon. Mr. DANDURAND: The executives must have their decision confirmed by the board.

Mr. MULVEY: Yes.

Hon. Mr. BELCOURT: We are told by Mr. Mulvey that their appointment is illegal.

Hon. Mr. TESSIER: They would have to make the by-laws in conformity with the Act.

Hon. Mr. BELCOURT: This will not have a retroactive effect, will it?

Mr. MULVEY: I do not see how it could.

Hon. Mr. BELCOURT: I am trying to see how it could not, because the law is there. In future, executive committees will be legal, but it will make illegal all executive committees previously appointed.

Mr. MULVEY: Not any more illegal than they were. You know the principle of law, delegatus non potest delegare,—a person to whom a trust is delegated cannot in turn delegate that trust.

Hon. Mr. BELCOURT: I am not prepared to accept that doctrine in this case.

Mr. MULVEY: I do not think there is any question about that.

Mr. BELCOURT: I am not prepared to accept that.

Mr. MULVEY: Section 28 is copied from the English Act, and requires very little comment. It merely provides that companies holding shares in another may be adequately represented at meetings of the shareholders. It is quite innocuous.

Section 29 merely authorizes the establishment of branch registers under the supervision of the Secretary of State. In its present form the section is tentative. There have been a number of suggestions made regarding this section, and they will be placed, I am sure, before you in the discussion on the Bill. The section is drawn in this way merely to enable the discussion to go on. While it is quite sufficient for departmental purposes, it is very likely this section will come out of this Committee very different from the way it reads at the present time.

Hon. Mr. BELCOURT: It is practically the same as the provision in the Banking Act, is it not, with regard to bank shares?

Mr. MULVEY: No, it is quite different. The provision in the Banking Act has been suggested here, but I think it goes farther than is necessary. I believe there will be considerable discussion on that section later on.

Section 30 merely provides for the keeping of books of accounts. It is a curious thing that the Act has stood for so many years without this requirement. This section is also copied verbatim from the English Act.

Section 31 provides for the investigation of investment trust companies. This is rather a hazardous thing to do. I know that at least one prominent lawyer said, "If you investigate investment trust companies, why do you not investigate all companies?" That seems to be a pertinent objection, but I do not agree with it. The kind of investigation proposed is merely one to ascertain whether the company has complied with the limitations of its Charter. If it has, that ends the investigation. But if the company has gone beyond the limitations of its charter, there should be some authority to go further, and the section is drawn in that way to accomplish that purpose.

Hon. Mr. BELCOURT: Have you considered the advisability of changing the term "investment trust", by taking out the word "trust" and calling it merely an investment company, or by taking out the word "investment" and calling it a trust company?

Mr. MULVEY: We thrashed that out when the first application came in to the Department. The term "investment trust" is well known in Great Britain. I know that the mere having of the words "investment trust" in the name of the concern that is known as the Founders Investment Trust Limited

enabled them to get £50,000 in Great Britain, because those words indicated a class of business that is carried on and which has made a large appeal to the British investors. That is why I think the words should be continued.

Hon. Mr. BELCOURT: They do not mean the same thing. They are not synonymous terms; they are, in fact, contradictory.

Mr. MULVEY: It does not make any difference what they may mean; it is what people take them to mean.

Hon. Mr. BELCOURT: If you would use the proper words, they would be better.

Mr. MULVEY: No. It is a curious thing about the English language, that words often fail to indicate anything of what they really mean. You will find that time and time again. I will give you one instance that comes to my mind, namely, the great English public school which is not a public school in any sense of the word. But the Englishman takes a certain word and he always gives it the same meaning. Now, neither in Canada nor in the United States do we do that, but in England they do. I have noticed that they may take a word which to you or to me means something entirely different from what it means to them, but they always use it in the same way. It is really because they are called investment trusts that they are able to get British money.

Hon. Mr. BELCOURT: I am not worrying so much about the facilities for enabling them to get the funds of investors as I am about the necessity for protecting the public.

Mr. MULVEY: This is a new kind of business, which if properly managed will be of great advantage to the Canadian investing public. If we can get English money here as well, it will be to our advantage, because we need as much as we can get.

Hon. Mr. WILLOUGHBY: I suppose these investment trusts put a very large percentage of their funds, 30, 40 or 50 per cent, in public securities.

Mr. MULVEY: Yes. That is why it appeals to the investors, and that is why they carry on their business.

Hon. Mr. LAIRD: I notice you take power to call for details of investments. Does that imply that you propose to exercise any supervision over them?

Mr. MULVEY: No. That means that when the Secretary of State thinks it advisable he can send somebody in to the company to find out whether the provisions of its charter are being complied with. If the investigator finds that they are not doing so, he may want to go further. It is so long ago since I read this section, that I had better look at it again. I now notice two provisions there which escaped me for the moment. The Secretary of State may ask for statements merely for the purpose of seeing whether the company is complying with its charter; and it may be that when those statements are filed, or if there is something suspicious about them, he may want to go further and have an investigation of the security register of the company itself, or to find out whether the securities that are shown on the register are actually on hand. If there is an indication of something wrong, then he may want to investigate the whole business.

Hon. Mr. LAIRD: Right at this point I would like to ask the leader of the Government—I do not know whether he is prepared to answer or not—whether it is contemplated to introduce legislation with a view to controlling the investments of these investment trust companies along the lines that investments of insurance companies, bank and loan companies are approved. I think that is a question which naturally arises in consideration of this clause.

Hon. Mr. DANDURAND: I have been handed this Bill with the idea of submitting it to the Senate, and, through the Senate, to the public, in order to

invite criticism. In answer to my honourable friend I may say that we have an Inspection Act for loan companies; we have a very stringent superintendence and inspection of insurance companies, and of trust companies also. I wonder if we are going beyond the principles already laid down in those various Acts by enacting this special legislation.

Hon. Mr. LAIRD: I do not want to argue the question, but it strikes me that at this point, when this clause is being considered, it might not be a bad idea for the Government to consider the question of what they are going to do with these investment trust companies, because they are getting to be on a very large scale, and a number of them have started to operate. It is a question whether some special act should not be passed regulating the nature of the securities in which they shall invest the moneys they get from the public, and calling for the same inspection to which insurance companies are subject. In considering that, the question would arise whether the matter should come under the Department of Finance, which already has an inspection system with a very high priced man in charge of it, or under the Secretary of State, who is administering this portion of the Act and who is entitled, under this clause, to call for details regarding the manner in which the companies are carrying on their business.

Hon. Mr. BÉIQUE: I propose to suggest that the honourable leader of the Government have somebody prepare a draft of an act governing investment trust companies. I quite agree with the statements that have been made.

Hon. Mr. BELCOURT: A special act?

Hon. Mr. BÉIQUE: Yes. Within two or three years we will have hundreds of these companies. They have developed rapidly in England and in the United States, and within the last twelve months, to my knowledge, a couple of dozen or more of these companies have been formed. They will be very useful companies, especially with the inclination of the public to speculate just now. These companies will be a great help to investors, because the boards will be composed of men of experience who will be able to decide, better than individuals are, how their savings should be invested.

Hon. Mr. WILLOUGHBY: Better than a broker's tip, you think?

Hon. Mr. BÉIQUE: Yes. As has been suggested, the Government, through the Department of Finance, already has complete machinery to regulate and to supervise loan companies, trust companies and insurance companies. These investment trust companies are of the same nature, and they should be governed in a similar way. I think if the honourable leader of the Government will instruct someone to prepare a form of bill, we could take it up after the adjournment, when we start on this matter and decide whether we should not strike out all reference to investment trust companies in this Bill and pass a general act that would govern these companies.

The ACTING CHAIRMAN: That is a first-class suggestion.

Mr. MULVEY: Section 32 provides for a slight amendment in a section which has been standing since 1924. It provides that where an arrangement or compromise is made between the shareholders or debenture holders of a company, they may apply to a judge for an appointment for a meeting of each class. Then the compromise arrangement is submitted, and if it is approved of by three-fourths of those of each class, it may be approved of by a judge. Now, we find that judges have been approving of arrangements which are not according to the provisions of the Act, and it is necessary that the Secretary of State should have some control. The control here suggested is that if the Secretary of State finds that the arrangement is not within the provisions of the Act, he shall send it back to the company.

Hon. Mr. DANDURAND: With a view to a compliance with the provisions of the Act?

Mr. MULVEY: Yes, exactly. It has also been suggested that before the arrangement has been approved of by the judge, it should be submitted to the Department, and that a certificate from the Department that it is in accordance with the provisions of the Act should be before the judge before he approves. It is immaterial from a departmental standpoint which method is adopted, but there should be some provision by which the Secretary of State would be protected. There was one company to which the Secretary of State was obliged to issue, because the Act said so, although the arrangement was not in compliance with the Act.

Hon. Mr. WILLOUGHBY: Did you treat that as ultra vires?

Mr. MULVEY: If that company gets into trouble, we may find out. I do not see how it can be found out otherwise.

Section 33 is adopted from the English Act. It defines the word "arrangement." Apparently some doubt has been raised regarding it in English litigation.

Section 34 is completely copied from the English Act, and provides for a director being relieved by a Court on account of breach of trust or negligence. If it be found that he was acting honestly, he may be relieved by a Court.

Section 35 is quite innocuous. It merely corects an error in the Act as it now stands.

The purpose of section 36 is merely to conserve the forms of the Department so that we can continue to call this Act, as amended, "The Companies Act," without calling it "The Companies Act, as amended." Thereby we can avoid the necessity of changing forms in the Department.

Section 38 makes the Act, as amended, applicable to all companies which have been heretofore incorporated under the Act.

Section 39 merely states the time when the Act comes into force. There are some clauses in respect to prospectuses which are delayed. The other clauses come into force upon the Act being adopted.

Hon. Mr. DANDURAND: If any members of the Committee desire further information, Mr. Mulvey is here to answer any questions.

Hon. Mr. BÉIQUE: I have a number of inquiries to make. I have perused the Bill, and I think it contains a good many things of value but there are others that I question seriously. The best way will be to deal with the Bill clause by clause.

There is a section which provides for the distribution of the capital of the company. Well, I doubt very much if this principle should be adopted by way of dividends. It may lead to a great deal of danger. That is one of the clauses to which I shall call attention. Then, there is a clause dealing with the issuing of stock. Heretofore the stock which was issued had to be paid for. Well, this provision is amended, and I am afraid that it goes too far. If a company has a lot of watered stock, I think the public should know of it, and there should be provision in that respect. Twenty to twenty-five years ago I suggested a provision which was incorporated in the Joint Stock Companies Act of the Province of Quebec, whereby a company is permitted to issue stock, rather than pay in cash, in payment for property or for contracts, provided it is in virtue of a contract, a copy of which is lodged with the Secretary of State, so that the public dealing with that company may know to what extent its stock may have been watered or may represent no value, or hardly any value, at all. When we come to the provisions dealing with that matter, I propose to suggest some amendments in that direction.

The ACTING CHAIRMAN: Any other questions, honourable gentlemen?

Hon. Mr. BÉIQUE: I would suggest now that the honourable leader of the Government should instruct the proper parties to prepare a bill containing all the machinery necessary for governing investment trust companies, and then when the Committee is dealing with this bill we can have the form of the other Bill before us and decide whether we should deal with these companies under the Companies Act or pass a special act to govern them.

Hon. Mr. DANDURAND: The honourable gentleman is not moving that, is he? I understand it is merely a suggestion that he is making?

Hon. Mr. BÉIQUE: Yes, a suggestion.

Hon. Mr. DANDURAND: I will bring the matter before the Minister of Finance, who will present it, in some form, to his colleagues of the Cabinet. If it is to become a Government measure, it will have to be drafted and adopted as such. Of course, any member in either House can always propose a public bill; but since we are seized with this Bill and dealing with investment trusts, I will convey to my colleagues the information that there is a desire expressed that a special act be framed to deal with this new form of company.

Hon. Mr. WILLOUGHBY: If you do you will eliminate the investment trusts?

Hon. Mr. DANDURAND: It would be of a different character, because those companies were always incorporated by the Secretary of State.

Mr. MULVEY: I would like to correct you there. They are not all incorporated by the Secretary of State. Any company that is under the Insurance Act, the Trust Companies Act, or several other Acts, must be incorporated by special Act of Parliament.

Hon. Mr. DANDURAND: Oh, yes, that I know. For instance, banks must come before Parliament.

The DEPUTY CHAIRMAN: That is by a special Act by Parliament.

Hon. Mr. BEIQUE: That is a detail. I would see no objection. To my mind we have the form of charter governing trust companies or loan companies or investment trust companies, whether they are incorporated by special Act of Parliament or by letters patent. I would not see any objection to giving to the Secretary of State the power to incorporate investment trust companies, but the working of the companies would be according to special Act, which would be an Act like the Insurance Act, or the Loan Companies Act or the general Act governing all those companies.

Hon. Mr. DANDURAND: Mr. Mulvey might tell us if this draft Bill has been circulated outside of Parliament.

Mr. MULVEY: It was circulated, immediately on being drafted, to a number of prominent lawyers who were dealing with companies, and many of their suggestions are incorporated into that Bill. As a matter of fact the knowledge of the lawyers who deal with companies is frequently much better than is obtainable in the Department, and we asked their advice and assistance. That is the only distribution that has been made.

Hon. Mr. DANDURAND: What is the opinion of the Committee in regard to the distribution of this Bill with the statement we have heard this afternoon? To whom should it go?

Hon. Mr. TESSIER: Boards of Trade and trust companies and loan companies.

Hon. Mr. LAIRD: The commercial interests of the country should be advised on an important Bill like this.

Hon. Mr. DANDURAND: I want the opinion of the Committee as to whom it should be sent—Boards of Trade, banks, trust companies, loan companies—

Hon. Mr. LAIRD: Investment trust companies, etc.

Hon. Mr. DANDURAND: Is that agreed, gentlemen? Then I move that the Committee rise, subject to meeting again at the call of the Chairman.